

NAVIGATOR BOOKS

CHARTING NEW COURSES IN PUBLISHING

Business Concept

by

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“The book business as we know it will not be living happily ever after. With sales stagnating, CEO heads rolling, big-name authors playing musical chairs, and Amazon looming as the new boogeyman, publishing might have to look for its future outside the corporate world.”

— BORIS KACHKA, *Have We Reached the End of Publishing As We Know It?*
NEW YORK MAGAZINE, September 14, 2008

Executive Summary

Navigator Books is a new publishing imprint which will leverage emerging technologies in printing, distribution, and communications to provide smart books to smart readers. Our fundamental operating concept is summed up by three core assumptions:

- #1 Our target audience is at least as clever as we are. We will not underestimate the intelligence of our readers, and we will not insult them by angling our books toward some assumed lowest common denominator. Instead, Navigator Books will publish complex, entertaining, and thought-provoking books which challenge the minds of our readers.
- #2 The book business is undergoing a profound transformation. No one can predict exactly what the future of the market will look like, but Navigator Books will not fear that future. We will embrace change, and explore opportunities to redefine the relationship between author, publisher, and reader.
- #3 Mainstream publishing is neither our model, nor our competition. We recognize and salute the extraordinary accomplishments of the major publishing houses, but the traditional publishing paradigm is simply not relevant to our efforts. We consider ourselves a completely separate breed, and we intend to operate accordingly. Where the major houses go brick-and-mortar, we will go virtual. Where the current industry relies on established media outlets for advertizing and marketing, we will go viral. We have no massive infrastructure to protect, no stockholders to satisfy, and no senior executives standing ready to demand our resignations if we try something ambitious that doesn't work. Consequently, we can be more creative, more adaptable, and less risk averse than “Big Publishing.” In other words we will operate outside the traditional boundaries.

The State of the Market The mainstream publishing industry is struggling. According to an April 2010 financial report from the Association of American Publishers (APA), net book sales for the major U.S. publishing houses decreased from \$24.3 billion in 2008 to \$23.9 billion in 2009. That's an overall market loss of 1.8% (\$400 million) in a twelve month period. During the previous fiscal cycle (2007-2008), net book sales declined \$700 million, from \$25 billion to \$24.3 billion. Recent figures (2010) indicate that the downward trend in publishing profits is continuing.

Many publishing executives are quick to blame the steady degeneration of the book market on a general decline in reading. They flatly state that American consumers are not buying books, and that the public has lost its taste for the written word. Even a cursory examination of recent book sales demonstrates that this notion is false.

During the first twenty-four hours of its release, J. K. Rowling's novel, *Harry Potter and the Deathly Hallows*, sold 8.3 million copies in the United States alone. That's an average of approximately 96 books sold per second.

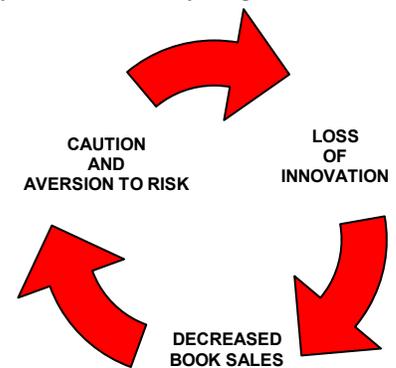
Dan Brown's religious thriller, *The Da Vinci Code*, sold 81 million copies between 2003 and 2009. That works out to an average of 1.35 million copies per year of a single book.

Breaking Dawn, the final book in the Twilight vampire series by Stephenie Meyer, sold 1.3 million copies on the day of its launch.

The evidence is clear. American consumers have not stopped buying books. Quite the contrary, they buy books by the *millions*, but they are not indiscriminant consumers. Readers want something new and exciting. When they find it, they go after it voraciously.

The demand for new authors and fresh material forces the major publishing houses into an unfortunate (but largely predictable) decision cycle. When book sales decline, publishers become understandably anxious. They begin to avoid risk, and seek "safe" solutions that have worked well in the past. Rather than gambling on unknown authors or new approaches to storytelling, editors tend to invest in established (i.e. famous) writers, and familiar story formulae that have proven effective in previously published books. They attempt to duplicate past successes. In most cases, the result is neither new, nor exciting.

Readers are not stupid. They are quite capable of recognizing the same old stuff when they see it, and they demonstrate their dissatisfaction by spending their money elsewhere. This leads to a further decline in book sales, which (in turn) leads to even greater anxiety in the publishing industry. If the current financial trend is anything to judge by, this cycle could conceivably repeat itself until mainstream publishing implodes. That, as the old cliché goes, is the bad news. Fortunately, there is also good news.



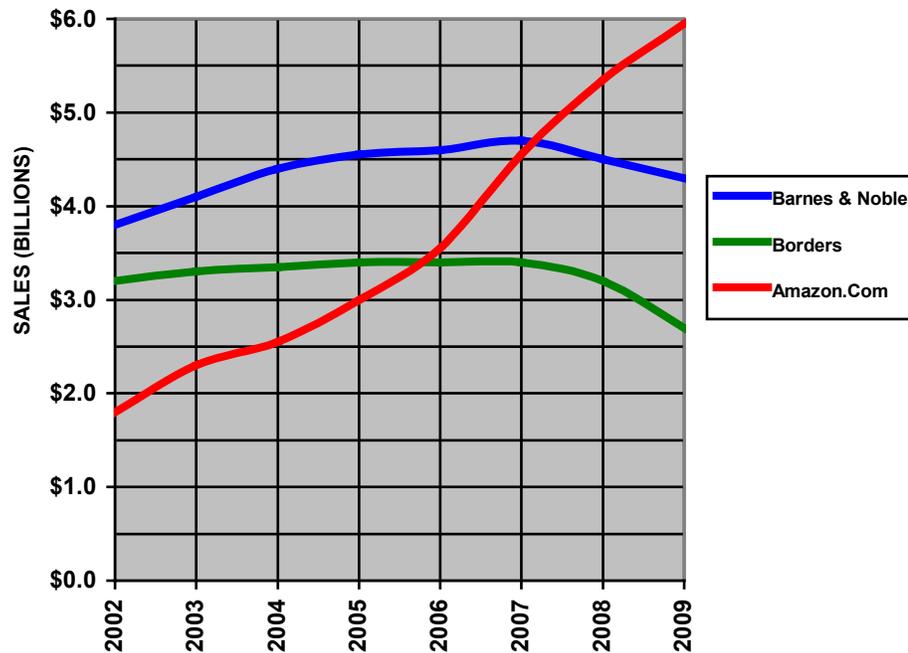
The lost revenue (\$400 million in 2009, and \$700 million the year before) has not simply vanished. Representatives of the major publishing houses may choose to believe that the centuries long tradition of reading is finally giving way to packaged entertainment, but the numbers suggest something else entirely.

In 2005, the Book Industry Study Group (BISG) issued a report which shows that book sales in the United States have been seriously underreported. According to the BISG report, the accepted net sales statistics tracked by the APA do not take into account the growing impact of small publishers. Approximately 63,000 publishers—each with annual sales of less than \$50 million—collectively generate about \$14.2 billion in book revenue per year. These figures appear to be an indication that overall book sales are improving, rather than diminishing. The data also indicates that small presses are assuming an increasing share of the publishing market. Navigator Books will be a part of that phenomenon.

Sales Vectors

The goal of many writers (and most publishers) is to get their books into the so-called brick-and-mortar bookstores. While this has long been accepted as the primary route to success, it is no longer the only option. In fact, given current trends in book purchasing, it may not be the best option either.

The international online retailer, Amazon.Com, surpassed the net book sales of the Borders bookstore chain in late 2005, and the net book sales of the Barnes & Noble bookstore chain in early 2007.



Amazon’s current book sales are nearly equal to the combined outputs of Borders and Barnes & Noble, the two largest book chains in the United States.

In July of 2010, Barnes & Noble stock prices dropped below \$12 a share, down from their peak value of more than \$45 per share five years ago, and less than half of their high value for the year. According to a recent article in the Wall Street Journal, annual Barnes & Noble profits have slid from \$135.8 million, to \$75.9 million, to \$36.7 million in the past three years. As a result of declining profits and plummeting share values, the Barnes & Noble board of directors announced in August 2010 that the company is up for sale.

In February of 2011, Borders filed for bankruptcy under Chapter 11, announcing plans to close 200 of its 674 stores and cut thousands of jobs. The massive downscaling and reorganization of the giant book chain is further evidence that the rules of the book business are changing rapidly.

“The simple explanation for Barnes & Noble's decline is the Internet, which spawned Amazon.com, e-readers and digital books.”

— JAMES B. STEWART, *Clearance Sale: Barnes & Noble Didn't Evolve Enough*
THE WALL STREET JOURNAL, August 18, 2010

Economic analysts have offered a variety of opinions about the future of national bookstore chains. Some believe that the giant chain stores can bounce back, with recapitalization, strategic realignment, and proper management. Others believe that the ride is over, and the national chains will continue to lose profits and market share. Although the ultimate result of this trend is still a matter of dispute, most analysts are in full agreement regarding the cause: the internet. More specifically, a combination of Amazon.Com and the explosion of digital books.

Sales Growth (or Loss) Over the Past Eight Years

	2002	2003	2004	2005	2006	2007	2008	2009
Barnes & Noble	+ 4%	+ 7%	+ 8%	+ 2%	+ 2%	+ 2%	- 3%	- 5%
Borders / Waldenbooks	+ 1%	+ 4%	+ 2%	+ 2%	- 1%	0%	- 9%	- 15%
Amazon.Com	+ 10%	+ 21%	+ 14%	+ 18%	+ 17%	+ 29%	+ 16%	+ 11%

Note 1: All values rounded to the nearest whole percent.

Note 2: Includes only the North American division of Amazon.Com. Amazon international is not represented.

The Opportunity

Albert Einstein once said, “In the middle of difficulty lies opportunity.” The mainstream publishing industry is experiencing what may be the greatest challenge it has ever faced. The same is true for the national chain stores that used to be the primary sales venue for books in the United States.

Major publishers and booksellers have been slow—and in some cases, completely unwilling—to adapt to technological and cultural changes in the fiction market brought about by the digital revolution. This reluctance has cost them the initiative. The old business model simply isn’t working anymore.

Hard-line traditionalists in the industry believe that we are witnessing the collapse of the book market, but the available evidence suggests otherwise. The book market is not collapsing. It’s expanding rapidly, and it’s evolving just as quickly. For perhaps the first time in history, the greatest opportunities in fiction publishing are occurring outside the boundaries of the traditional publishing industry and the major bookstore chains.

Navigator Books will capitalize on this opportunity. We will make a clean break with Big Publishing, and operate completely outside of its sphere of influence.

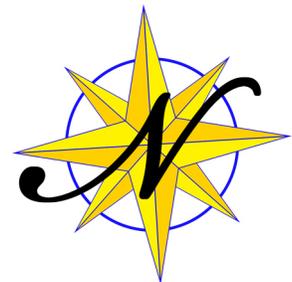
SWOT Analysis

Known Strengths, Weaknesses, Opportunities, and Threats for the Navigator Books business model are as follows:

	STRENGTHS	WEAKNESSES	
STRENGTHS	<ul style="list-style-type: none"> • Quality product • Quick to embrace new technologies • Strong guerilla marketing skills • Low overhead 	<ul style="list-style-type: none"> • No established market presence • No financial backing • Unreliable cash flow • Cultural image of small publishers 	WEAKNESSES
OPPORTUNITIES	<ul style="list-style-type: none"> • Market is expanding rapidly • Major competitors are slow to adapt to new technologies • Growing demand for “smart” books 	<ul style="list-style-type: none"> • Dependent on external resources • The “Escape Clause” may cost us authors 	THREATS
	OPPORTUNITIES	THREATS	

Branding

Navigator Books will use overt branding, including the “N and Compass Rose” logo, to establish a recognizable brand. The logo will be printed on the spine or cover of every book under our imprint. It will also appear on our website, Navigator-Books.Com, and on bookmarks, tee-shirts, decals, posters, and other marketing materials. Where appropriate, the logo will be accompanied by a tagline:



“Charting new courses in publishing.”

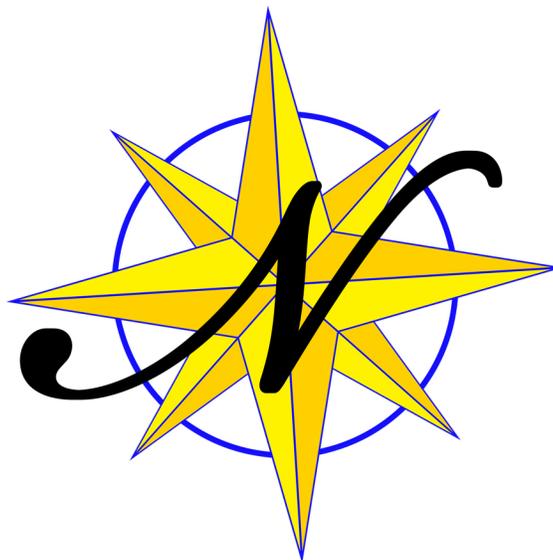
Evolving Concepts

Authors are creators by their very nature. To be effective, an author must be able to get into the minds of readers who are complete strangers, and exert an influence on their thoughts and emotions. Navigator Books recognizes this extraordinary ability, and we fully intend to harness it.

Every Navigator Books author will be an active member of our marketing team. Working together, we will ask ourselves a series of critical questions on an ongoing basis...

- Can we make our books more interactive?
- Are there any technologies or strategies that might enhance the reader experience?
- How can we leverage the power of the internet, personal electronics, free media sites, and the social networking phenomenon?
- How can we offer value with zero (or minimal) expense? In other words, where is the next opportunity to go viral?
- Who (if anyone) is doing this better than we are? Why is their method superior? What can we learn from it?
- What questions should we be asking next?

The last question on the list is the most important. If we ever stop asking that question, our methods and our thought processes will become stagnant. With this in mind, we will work to keep our marketing strategies and our products in a state of continual evolution.



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